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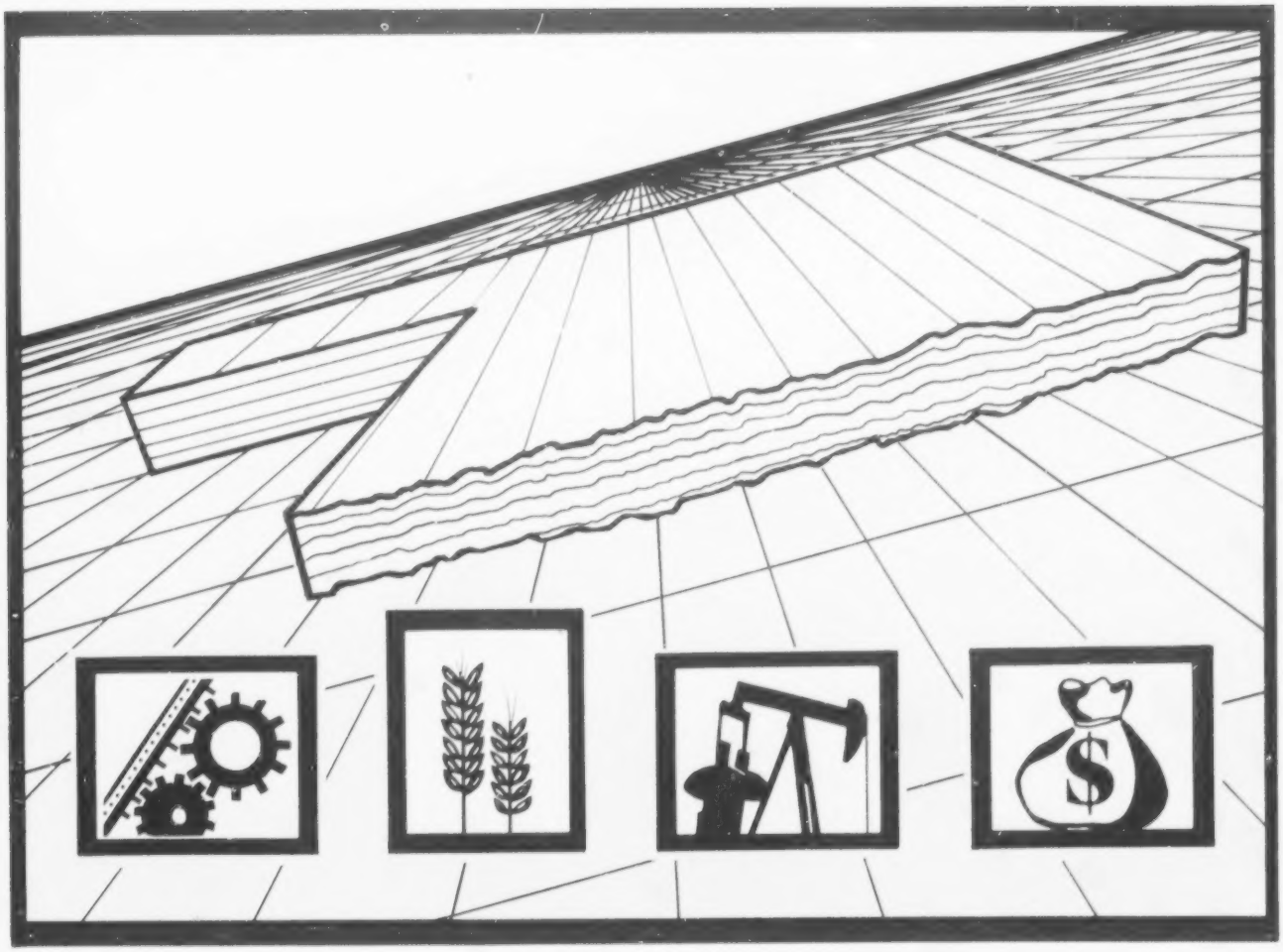
OKLAHOMA BUSINESS BULLETIN

CENTER FOR ECONOMIC AND MANAGEMENT RESEARCH
COLLEGE OF BUSINESS ADMINISTRATION
THE UNIVERSITY OF OKLAHOMA



The *Oklahoma Business Bulletin* is now combined with the *Review of Regional Economics and Business*. There will be four quarterly expanded editions of the *Bulletin* which will contain both articles and the usual statistical information on Oklahoma and its major centers. The remaining eight monthly issues of the *Bulletin* will contain only the statistical summaries, although articles on timely subjects might also appear in these inter-quarterly issues. The combination of these two publications will provide a more thorough examination of economic problems prevalent in Oklahoma as well as continuing to provide economic data which has long been presented in the *Oklahoma Business Bulletin*.

This publication change at the Center has been assisted by funding provided by the Robert S. and Grayce B. Kerr Foundation Inc., for which the Center is most grateful.

We at the Center are most hopeful that the Oklahoma oriented articles will assist State leaders and citizens in their efforts to solve the economic problems now facing the State.

George W. England
Director

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The Editorial Review Board welcomes original manuscripts, studies, and research reports from persons in both the public and private sector in any area of economics and business administration. The editorial policy of the *Bulletin* promotes a free exchange of ideas and analyses. Accordingly, the contents do not necessarily reflect the views of the editor or the publisher.

Manuscripts for consideration should be typed, double-spaced, and submitted in duplicate. Each submitted manuscript is reviewed by at least two members of the Editorial Review Board and a decision is usually reached in four to six weeks.

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SUMMARY OF INDICATORS

Category	6 Mos. '87	6 Mos. '86	June '87	Percentage Change 6 Mos. '87/'86	Percentage Change June/May '87
Personal Income (Monthly Average)					
Unadjusted ($000,000)	3,381.2	3,424.8	3,416.5	-1.3	0.3
Adjusted for CPI ($000,000)	1,004.4	1,047.6	1,004.6	-4.1	-0.1
Crude Oil Production (000 bbl)	61,513.5	76,269.0	9,945.7	-19.4	0.9
Industrial Power Sales (000,000 Kwh)[a]	3,971	4,023	710	-1.3	5.0
Total Bank Deposits ($000,000)[b]					
Demand	7,500	7,539	7,611	-0.5	1.1
Savings	25,670	27,058	25,584	-5.1	-0.3
Savings and Loan Associations ($000,000)					
Assets	9,968.0	10,039.4	9,987.3	0.0	0.0
New Mortgage Loans Made	530.8	732.8	84.9	-27.6	-11.8
General Business Index	93.5	91.0	93.2	2.8	-0.6

Note: Includes revisions.
[a]Sales of larger privately owned utility companies.
[b]Total deposits of all depository institutions.

SELECTED ECONOMIC INDICATORS

Category	6 Mos. '87	6 Mos. '86	June '87	Percentage Change 6 Mos. '87/'86	Percentage Change June/May '87
PERMIT-AUTHORIZED CONSTRUCTION					
Residential—Single Family					
Dollar Value ($000)	175,338	189,108	32,434	-7.3	18.2
Number of Units	2,661	3,117	502	-14.6	21.5
Residential—Multi Family					
Dollar Value ($000)	14,784	48,602	1,568	-69.6	163.0
Number of Units	648	1,629	88	-60.2	486.7
Nonresidential					
Commercial ($000)	85,135	76,124	11,363	11.8	39.7
Industrial ($000)	8,000	7,504	1,085	6.6	-44.9
Institutional ($000)	21,579	26,722	2,692	-19.2	-60.9
Nonbuilding					
Streets and Highways ($000)	72,016	78,304	13,016	-8.0	-38.1
All Other Nonbuilding ($000)	5,606	6,483	1,233	-13.5	-0.6
Total Construction ($000)	382,458	432,847	63,391	-11.6	-5.8
EMPLOYMENT TRENDS					
Total Labor Force (000)[a]	1,568.2	1,593.1	1,581.7	-1.6	0.4
Total Employment (000)	1,441.2	1,465.6	1,461.7	-1.7	0.3
Agriculture (000)	36.7	46.7	45.0	-21.4	5.1
Nonagriculture (000)	1,404.5	1,418.9	1,416.7	-1.0	0.2
Manufacturing (000)	158.3	164.4	158.9	-3.8	0.1
Mining (000)	52.8	57.3	52.4	-7.9	-0.6
Government (000)	253.9	253.8	250.9	0.0	-1.8
Contract Construction (000)	39.1	40.5	41.1	-3.5	2.5
Services (000)	225.2	223.6	229.2	0.7	0.8
Retail Trade (000)	213.4	215.0	214.1	-0.7	0.0
Unemployment Rate (%)	8.1	8.0	7.6	—	—
Average Weekly Hours					
Manufacturing (Per Worker)	41.1	41.0	41.0	0.2	-0.5
Average Weekly Earnings					
Manufacturing ($ Per Worker)	407.78	406.99	410.82	0.2	-0.1
Contract Construction ($ Per Worker)	426.43	398.24	419.25	7.1	-7.1
Retail Trade Excluding Eating and Drinking Places($ Per Worker)	189.89	189.20	192.82	0.4	1.6

Note: Includes revisions.
[a]Civilian Labor Force.

RETAIL TRADE IN METRO AREAS AND STATE
($000)

Retail Trade	6 Mos. '87 Adjusted	6 Mos. '86 Adjusted	June '87 Adjusted	June '87 Unadjusted	Percentage Change 6 Mos. '87/'86 Adjusted	Percentage Change June/May '87 Adjusted	Percentage Change June/May '87 Unadjusted
OKLAHOMA CITY MSA							
Food	1,104,838	1,105,775	183,867	195,788	-0.1	-3.8	-3.7
Apparel	90,792	97,985	14,653	13,646	-7.3	0.2	0.9
General Merchandise	347,115	372,606	57,530	60,084	-6.8	4.4	9.6
Furniture	145,193	131,462	21,548	21,677	10.4	-12.4	-11.8
Lumber	84,563	104,934	13,988	16,421	-19.4	-3.3	-2.5
Auto Dealers	733,370	928,961	133,695	135,082	-21.1	35.0	12.8
Service Stations	101,514	116,357	12,700	13,490	-12.8	-27.3	-23.3
All Other	336,654	338,665	50,627	60,784	-0.6	1.6	-2.2
Total	2,944,039	3,196,745	488,608	516,972	-7.9	4.8	0.9
TULSA MSA							
Food	661,730	668,897	107,237	114,436	-1.1	-5.5	-4.0
Apparel	82,789	86,804	13,837	13,098	-4.6	8.6	8.3
General Merchandise	281,313	287,865	45,829	48,184	-2.3	-4.0	-2.9
Furniture	112,577	116,747	17,667	18,931	-3.6	-5.7	2.8
Lumber	70,462	85,428	11,688	13,774	-17.5	5.3	8.9
Auto Dealers	426,709	540,510	77,788	78,597	-21.1	35.0	12.8
Service Stations	83,394	95,600	10,433	11,082	-12.8	-27.3	-23.3
All Other	41,740	46,624	7,511	6,706	-10.5	37.5	-1.6
Total	1,760,714	1,928,475	291,990	304,808	-8.7	3.8	0.6
ENID MSA							
Food	56,061	57,754	9,660	9,772	-2.9	-1.2	-7.1
Apparel	9,124	9,287	1,531	1,436	-1.8	0.7	-6.2
General Merchandise	23,496	24,208	3,947	3,908	-2.9	-0.1	-7.7
Furniture	5,958	6,010	892	857	-0.9	-2.6	-13.6
Lumber	7,754	9,030	1,322	1,508	-14.1	2.5	-2.3
Auto Dealers	41,972	53,160	7,652	7,731	-21.0	35.0	12.8
Service Stations	7,484	8,581	936	994	-12.8	-27.3	-23.4
All Other	17,614	16,537	2,346	2,926	6.5	-18.5	-14.0
Total	169,463	184,567	28,286	29,132	-8.2	3.6	-4.1
LAWTON MSA							
Food	94,566	89,059	14,704	16,508	6.2	-7.1	-6.3
Apparel	11,138	10,055	1,841	1,790	10.8	6.2	5.0
General Merchandise	68,137	58,144	10,724	11,401	17.2	1.2	-0.5
Furniture	13,180	15,507	1,992	2,072	-15.0	-12.5	-10.5
Lumber	9,600	11,832	1,656	1,812	-18.9	3.3	-2.8
Auto Dealers	55,939	70,858	10,197	10,303	-21.1	35.0	12.8
Service Stations	5,108	5,849	640	679	-12.7	-27.2	-23.3
All Other	19,301	21,253	2,591	3,833	-9.2	-11.4	5.1
Total	276,969	282,557	44,345	48,398	-2.0	2.2	-0.5
MUSKOGEE AREA							
Food	67,425	69,377	10,574	11,754	-2.8	-0.8	1.0
Apparel	9,566	9,422	1,397	1,383	1.5	-11.7	-10.5
General Merchandise	18,637	20,392	3,120	3,209	-8.6	-1.4	-3.5
Furniture	6,286	7,132	945	1,038	-11.9	-10.3	-1.7
Lumber	2,702	3,241	434	532	-16.6	8.5	20.4
Auto Dealers	35,293	44,710	6,431	6,499	-21.1	34.9	12.8
Service Stations	6,552	7,519	818	870	-12.9	-27.4	-23.3
All Other	17,490	15,687	2,374	3,172	11.5	-14.6	0.4
Total	163,951	177,480	26,093	28,457	-7.6	2.2	1.4
STATE[a]							
Durable Goods	2,705,883	3,306,094	476,614	488,176	-18.2	23.2	8.0
Auto Dealers	1,832,554	2,321,417	334,034	337,498	-21.1	35.0	12.8
Accessory Dealers	164,116	174,821	26,644	30,106	-6.1	0.1	2.2
Total Automotive	1,996,670	2,496,238	360,678	367,604	-20.0	31.6	11.8
Furniture	129,503	142,233	20,287	20,463	-9.0	-3.8	-3.4
Household Appliances	111,523	120,999	16,923	18,117	-7.8	-8.7	-4.1
Total Furniture and Appliances	241,026	263,232	37,210	38,580	-8.4	-6.1	-3.7
Lumber and Building Materials	282,782	329,709	46,901	53,696	-14.2	0.9	2.6
Hardware Stores	31,577	32,517	5,149	6,029	-2.9	-1.3	-0.9
Total Lumber, Building Materials & Hardware	314,359	362,226	52,050	59,725	-13.2	0.7	2.3
Nondurable Goods	5,313,870	5,541,316	797,459	820,621	-4.1	-4.1	-4.2
Apparel	311,711	318,013	50,659	47,336	-2.0	-2.6	-4.3
Drug Stores	272,253	245,649	43,227	41,798	10.8	-2.9	-8.6
Eating and Drinking Places	951,208	934,939	147,610	159,738	1.7	-10.3	-9.9
Food Group	2,104,760	2,278,171	301,289	319,874	-7.6	6.6	7.2
Service Stations	333,059	381,860	41,724	44,292	-12.8	-27.3	-23.3
General Merchandise Group	948,660	983,946	154,735	149,484	-3.6	-2.7	-6.4
Total Retail Trade	8,019,753	8,847,410	1,274,073	1,308,797	-9.4	4.6	0.0

[a]Total includes data for categories not shown in the table

RETAIL TRADE IN SELECTED CITIES
($000)

Retail Trade	6 Mos. '87 Adjusted	6 Mos. '86 Adjusted	June '87 Adjusted	June '87 Unadjusted	Percentage Change 6 Mos. '87/'86 Adjusted	Percentage Change June/May '87 Adjusted	Percentage Change June/May '87 Unadjusted
Ada	78,468	85,222	12,622	13,145	-7.9	-3.1	-7.6
Altus	68,825	77,875	11,195	12,080	-11.6	1.3	-0.7
Alva	16,608	23,900	2,388	2,567	-30.5	5.2	3.5
Anadarko	25,872	31,725	4,520	4,990	-18.4	7.0	5.7
Ardmore	103,905	112,761	16,715	18,114	-7.9	1.5	-1.7
Bartlesville	109,519	119,635	18,257	18,804	-8.5	3.4	2.3
Blackwell	16,930	20,422	2,863	3,035	-17.1	8.1	2.9
Broken Arrow	100,083	113,357	16,461	17,807	-11.7	5.6	-0.2
Chickasha	50,193	57,529	8,363	8,745	-12.8	4.3	-1.4
Clinton	34,011	38,798	5,711	6,033	-12.3	11.0	2.2
Cushing	29,955	36,890	4,796	5,260	-18.8	-5.3	-6.7
Del City	65,122	60,563	11,420	12,171	7.5	29.9	21.7
Duncan	74,342	85,507	12,530	12,629	-13.1	5.6	-6.1
Durant	58,647	57,062	9,690	10,394	2.8	3.6	4.4
Edmond	120,617	146,059	20,767	21,537	-17.4	32.3	25.2
Elk City	40,065	48,002	6,755	7,067	-16.5	6.5	0.0
El Reno	41,682	49,384	6,976	7,484	-15.6	6.1	2.6
Guthrie	28,504	34,112	4,605	5,079	-16.4	3.1	0.1
Guymon	25,246	28,743	3,980	4,366	-12.2	-5.5	-4.4
Henryetta	25,777	29,965	4,929	5,249	-14.0	46.3	39.0
Hobart	12,822	15,118	2,087	2,312	-15.2	6.6	5.3
Holdenville	14,919	17,869	2,489	2,584	-16.5	5.1	-1.6
Hugo	15,144	17,763	2,557	2,627	-14.7	6.5	-0.3
Idabel	21,288	24,194	3,368	3,615	-12.0	1.2	-1.4
Lawton	275,802	283,819	43,824	48,096	-2.8	1.8	-0.5
McAlester	54,828	62,020	9,064	9,595	-11.6	0.5	-4.3
Miami	63,094	72,020	10,508	10,920	-12.4	3.7	-1.7
Midwest City	191,803	215,965	32,033	33,173	-11.2	0.3	-3.8
Moore	76,438	76,199	14,316	15,088	0.3	26.2	26.3
Muskogee	155,619	167,964	24,528	27,190	-7.3	1.6	2.2
Norman	322,739	373,933	55,897	56,637	-13.7	13.8	4.7
Oklahoma City	1,505,165	1,646,109	248,913	266,157	-8.6	2.9	0.2
Okmulgee	30,077	34,525	5,317	5,636	-12.9	10.9	4.9
Pauls Valley	21,347	24,819	3,609	3,787	-14.0	5.4	5.2
Pawhuska	9,606	11,240	1,435	1,544	-14.5	-8.7	-9.9
Ponca City	85,072	94,535	14,305	15,376	-10.0	3.6	1.3
Poteau	24,554	28,525	4,081	4,265	-13.9	4.3	-1.0
Sand Springs	46,240	49,234	7,510	8,175	-6.1	1.8	-1.8
Sapulpa	69,213	80,939	11,375	11,993	-14.5	3.6	-2.3
Seminole	33,089	39,187	5,398	5,615	-15.6	1.7	-2.6
Shawnee	134,206	141,930	22,241	23,078	-5.4	3.3	-6.0
Stillwater	132,285	130,125	21,245	21,655	1.7	0.1	-3.6
Tahlequah	43,806	45,703	7,234	7,385	-4.2	-2.7	-10.1
Tulsa	1,332,614	1,456,347	220,195	230,700	-8.5	3.5	1.4
Watonga	9,889	10,942	1,689	1,839	-9.6	5.2	5.1
Weatherford	29,772	36,573	4,894	5,016	-18.6	-2.1	-0.2
Wewoka	6,488	7,371	1,029	1,079	-12.0	-0.4	-4.7
Woodward	60,593	71,561	10,021	10,662	-15.3	4.5	-1.9
Total Selected Cities	5,892,883	6,494,040	976,705	1,032,355	-9.3	4.6	1.1

ENID AND LAWTON MSAs

Category	6 Mos. '87	6 Mos. '86	June '87	Percentage Change 6 Mos. '87/'86	Percentage Change June/May '87
ENID MSA					
Employment (Number)					
Labor Force	29,738	31,788	30,225	-6.4	1.8
Total Employment	27,321	29,300	28,050	-6.8	1.7
Unemployment Rate (%)	8.1	7.8	7.2	—	—
Industrial Power Sales (000 Kwh)	223,396	239,359	37,879	-6.7	0.3
PERMIT-AUTHORIZED CONSTRUCTION					
Residential—Single Family					
Dollar Value ($000)	553	1,207	180	-54.1	44.0
Number of Units	7	17	2	-58.8	100.0
Residential—Multi Family					
Dollar Value ($000)	0	2,000	0	—	0.0
Number of Units	0	62	0	—	0.0
Nonresidential					
Commercial ($000)	383	70	16	447.3	—
Industrial ($000)	1,194	1,587	0	-24.8	—
Institutional ($000)	0	0	0	0.0	0.0
Nonbuilding					
Streets and Highways ($000)	0	193	0	—	0.0
All Other Nonbuilding ($000)	239	0	54	—	—
Total Construction ($000)	2,370	5,056	250	-53.1	-71.4
LAWTON MSA					
Employment (Number)					
Labor Force	47,725	48,429	48,450	-1.5	0.4
Total Employment	45,233	46,046	45,875	-1.8	-0.2
Unemployment Rate (%)	5.2	4.9	5.3	—	—
Industrial Power Sales (000 Kwh)	92,612	87,741	16,938	5.6	5.7
PERMIT-AUTHORIZED CONSTRUCTION					
Residential—Single Family					
Dollar Value ($000)	11,160	11,135	1,500	0.2	-36.9
Number of Units	174	186	24	-6.5	-38.5
Residential—Multi Family					
Dollar Value ($000)	400	2,067	0	-80.6	0.0
Number of Units	16	76	0	-78.9	0.0
Nonresidential					
Commercial ($000)	1,623	2,740	0	-40.8	—
Industrial ($000)	20	408	0	-95.1	0.0
Institutional ($000)	0	138	0	—	0.0
Nonbuilding					
Streets and Highways ($000)	406	1,429	0	-71.6	—
All Other Nonbuilding ($000)	0	0	0	0.0	0.0
Total Construction ($000)	13,610	17,915	1,500	-24.0	-53.3

Note: Includes revisions.

MUSKOGEE MA

Category	6 Mos. '87	6 Mos. '86	June '87	Percentage Change 6 Mos. '87/'86	Percentage Change June/May '87
Employment (Number)					
Labor Force	33,117	32,900	33,325	0.6	0.1
Total Employment	30,162	29,742	30,400	1.4	-0.3
Unemployment Rate (%)	8.9	9.5	8.8	—	—
Industrial Power Sales (000 Kwh)	100,816	81,700	18,138	23.4	-3.3
PERMIT-AUTHORIZED CONSTRUCTION					
Residential—Single Family					
Dollar Value ($000)	3,157	690	686	357.5	11.1
Number of Units	42	10	10	320.0	11.1
Residential—Multi Family					
Dollar Value ($000)	769	2,167	278	-64.5	-33.1
Number of Units	19	40	7	-52.5	-30.0
Nonresidential					
Commercial ($000)	7,686	98	199	E	-42.4
Industrial ($000)	1,675	0	789	—	—
Institutional ($000)	1,523	550	1,523	176.8	—
Nonbuilding					
Streets and Highways ($000)	0	0	0	0.0	0.0
All Other Nonbuilding ($000)	14	15	14	-9.4	—
Total Construction ($000)	14,823	3,520	3,489	321.1	153.1

E = exceeds 600 percent.
Note: Includes revisions.

TULSA MSA

Category	6 Mos. '87	6 Mos. '86	June '87	Percentage Change 6 Mos. '87/'86	Percentage Change June/May '87
Employment (Number)					
Labor Force	357,817	354,700	363,000	0.9	1.7
Total Employment	326,717	325,200	333,200	0.5	1.6
Manufacturing	49,700	51,867	49,300	-4.2	0.4
Mining	17,000	18,033	17,100	-5.7	1.2
Government	37,067	36,900	36,800	0.4	0.3
Wholesale and Retail Trade	73,383	72,383	74,400	1.4	0.5
Unemployment Rate (%)	8.7	8.3	8.2	—	—
Average Weekly Earnings					
Manufacturing ($ Per Worker)	425.69	414.21	423.15	2.8	-2.2
Industrial Power Sales (000 Kwh)	1,012,171	974,822	185,817	3.8	6.6
Bank Deposits ($000,000)[a]					
Demand Deposits	860.2	718.6	834.8	19.7	-0.3
Time and Savings Deposits	2,350.1	2,062.3	2,230.0	14.0	-2.1
Air Transportation					
Passengers Enplaning (Number)	691,432	670,343	132,445	3.1	0.9
Passengers Deplaning (Number)	699,498	672,630	134,722	4.0	2.4
Freight (Tons)	7,091	5,121	5,121	38.4	20.5
Water Transportation					
Tulsa Port of Catoosa					
Tons In	268,905	276,474	31,161	-2.7	-33.2
Tons Out	673,744	565,574	77,271	19.1	-1.9
PERMIT-AUTHORIZED CONSTRUCTION					
Residential—Single Family					
Dollar Value ($000)	66,168	59,610	12,925	11.0	26.3
Number of Units	949	981	198	-3.3	35.6
Residential—Multi Family					
Dollar Value ($000)	11,281	19,293	1,138	-41.5	—
Number of Units	527	618	76	-14.7	—
Nonresidential					
Commercial ($000)	13,200	28,198	1,316	-53.2	-26.8
Industrial ($000)	2,293	2,109	0	8.7	—
Institutional ($000)	9,776	8,843	73	10.5	-98.7
Nonbuilding					
Streets and Highways ($000)	10,007	9,491	5,432	5.4	42.7
All Other Nonbuilding ($000)	2,426	3,123	580	-22.3	5.4
Total Construction	115,151	130,666	21,463	-11.9	-3.1
General Business Index	87.5	86.7	86.8	0.9	-0.9

Note: Includes revisions.
[a]Total deposits of large commercial banks.

OKLAHOMA CITY MSA

Category	6 Mos. '87	6 Mos. '86	June '87	Percentage Change 6 Mos. '87/'86	Percentage Change June/May '87
Employment (Number)					
Labor Force	502,450	517,800	508,300	-3.0	0.6
Total Employment	469,650	485,100	476,700	-3.2	0.4
Manufacturing	48,617	50,867	48,600	-4.4	0.4
Mining	11,750	14,100	11,300	-16.7	-2.6
Government	97,783	99,667	96,800	-1.9	-1.3
Wholesale and Retail Trade	97,400	104,800	98,100	-7.1	-0.4
Unemployment Rate (%)	6.6	6.3	6.2	—	—
Average Weekly Earnings					
Manufacturing ($ Per Worker)	445.47	439.22	455.63	1.4	0.5
Industrial Power Sales (000 Kwh)	583,922	612,898	102,779	-4.7	1.6
Bank Deposits ($000,000)[a]					
Demand Deposits	919.1	947.2	906.8	-3.0	2.7
Time and Savings Deposits	1,807.3	2,224.4	1,666.9	-18.8	-2.1
Air Transportation					
Passengers Enplaning (Number)	739,568	714,021	140,211	3.6	-0.9
Passengers Deplaning (Number)	748,099	727,077	139,993	2.9	1.0
Freight Enplaned (Tons)	2,927	3,947	488	-25.8	6.3
Freight Deplaned (Tons)	4,775	5,785	713	-17.5	-14.5
PERMIT-AUTHORIZED CONSTRUCTION					
Residential—Single Family					
Dollar Value ($000)	79,452	102,662	14,944	-22.6	27.2
Number of Units	1,290	1,708	236	-24.5	24.2
Residential—Multi Family					
Dollar Value ($000)	1,058	20,817	0	-94.9	0.0
Number of Units	49	713	0	-93.1	0.0
Nonresidential					
Commercial ($000)	51,733	34,938	8,089	48.1	67.5
Industrial ($000)	2,473	2,905	295	-14.9	-68.0
Institutional ($000)	5,466	4,772	1,097	14.6	-4.8
Nonbuilding					
Streets and Highways ($000)	20,156	23,797	272	-15.3	-95.4
All Other Nonbuilding ($000)	2,691	2,460	513	9.4	-21.0
Total Construction ($000)	163,029	192,352	25,210	-15.2	-0.1
General Business Index	87.5	85.8	88.5	2.0	-0.8

Note: Includes revisions.
[a]Total deposits of large commercial banks.

Sources for all tables: Local utilities companies; 10th Federal Reserve District Member Banks; Federal Home Loan Bank of Topeka; Oklahoma Employment Security Commission; United States Department of Commerce, Construction Statistics Division; Oklahoma Department of Transportation, *Progressive Report of the Transportation Director*; Center for Economic and Management Research, College of Business Administration, The University of Oklahoma. The data for all tables were compiled by Marjorie E. Earley, Statistician for CEMR and Brian Hickey, Research Assistant.

Business Highlights

Neil J. Dikeman, Jr.

Forecasts of slow improvement in the State's economy made earlier in the year appear to be holding up in most sectors of the economy although some areas of activity continue to lag behind year ago levels. In fact, of the ten most widely used measures of economic change, five have shown gains for the last two consecutive months and one reversed a May decline in June. Of the remaining four indicators, three declined during both May and June while the fourth experienced a fractional drop from the May level. Thus, during both May and June, gainers outstripped losers and thereby generated renewed optimism for continued improvement during the last half of the year.

Employment

Employment was one of the indicators which experienced monthly increases during both May and June but these increases were not sufficient to raise the average monthly level of employment during the year to date above that of the first half of 1986. However, this year's average remained only marginally below that of 1986 so that a continuation of the recent increases could off-set the current drop of 1.7 percent in average monthly level of employment thereby raising the average to near the 1986 level by year's end.

The job losses thus far this year have been in agriculture (10,000), manufacturing (6,100), mining (4,500) retail trade (1,600), contract construction (1,400) and all other industrial groups (2,500). It should be noted that all of these industries experienced monthly increases in both May and June except for mining (which declined in May but rose in June) conversely, and government (which declined in both months). Government employment has averaged 100 more jobs and service trades 1,600 more jobs than during the same period a year ago. The sharp decline in agricultural employment so far this year can be attributed in great measure to the unseasonable weather conditions noted earlier in the year. However, some of the early losses have been offset by the rather sizeable gain in June.

Finally, the average monthly unemployment rate of 8.1 percent was fractionally higher than the 8.0 percent level noted for the first half of 1986 despite the fact that on average, 500 fewer persons were unemployed each month of this year than was the case at this time in 1986. This apparent disparity was due to the fact that the average labor force during the first half of this year declined by only 1.6 percent from last year's average whereas average employment was off by 1.7 percent.

Retail Trade

Recent press releases have highlighted the fact that sales tax collections during June exhibited a healthy increase over those of June, a year ago. While this was good news insofar as state revenues are concerned, it should be recalled that much of this gain in revenue was due to the increased sales tax rate which took effect in June and a far lesser part to increased sales. This is witnessed by the fact that retail sales in Oklahoma rose by only 0.1 percent during the month but, on the brighter side, this increase occurred at a time when a seasonal downturn was expected. Thus, after adjustments were made for seasonal variations, retail sales were up by 4.6 percent over May 1987. Also of some encouragement was the fact that first June marked the second successive monthly increase and next, automobile sales, which experienced sharp decreases during the first quarter began to show gains in April which accelerated rapidly in both May and June thus reducing the May deficit from last year's sales of 22.7 percent to 21.1 percent. These recent increases in automobile sales were largely the result of lower interest rates being offered by the manufacturers and longer warranty periods on most brands. However, despite these optimistic signs, retail trade during the first half of the year remained about 9.4 percent less than at this time last year and probably will not reach the sales

volume of 1986 by year's end unless consumer purchasing picks up rapidly during the last half of the year.

It is interesting to note that sales in larger cities located in the State's four MSAs have apparently been hardest hit by the slowdown in sales this year while many of the smaller communities in less urbanized areas have actually enjoyed increased sales. It was the sales recorded in these latter communities in June which pushed the level for that month ahead of the May volume.

Construction

The dollar volume of construction activity as measured by the value of building permits issued declined by 5.8 percent in June to mark the third successive monthly decrease. This latest drop brought the level for the year to date to $382.4 million which was 11.6 percent less than for the same period of 1986. The main bright spots in the construction industry during June were the 18.2 percent rise in the value of permits issued for single family dwellings, the 163 percent increase in the value of permits issued for multi-family housing and the near 40 percent rise in the value of commercial building permits. These gains were, however, offset by sharp losses in industrial, and institutional building as well as in street and highway and other building activities.

An analysis of construction activity during the first six months indicates that recent increases in the value of residential permits has raised construction of single family dwellings to within 7.3 percent of the total for the same period last year and have also resulted in pushing the value of commercial and industrial construction for the year ahead of the totals for the first half of last year by 11.8 percent and 6.6 percent respectively. At these rates and direction of change, it is likely that total construction activity in the state will fall below the 1986 total by about 5 percent by year's end.

Finance

Total deposits in all depository institutions in Oklahoma rose slightly in June to register the second successive monthly gain. The May increase was the result of gains in both savings and demand accounts while the June rise resulted from an increase in demand accounts that was partially offset by a fractional drop in savings account balances. These recent increases, as encouraging as they were, did not raise the level of deposits to that of the first half of 1986 but did reduce the margin between the two periods to a net decline of 4.1 percent. This, however, is encouraging since the total of deposits during the first quarter of the year lagged behind the total for the same period last year by 4.5 percent. This suggests that the gap between the two years is narrowing and at the current pace, may be eliminated by the end of the year. It also indicates that depositors are beginning to regain some confidence in the viability and strength of the State's financial institutions.

Industrial Power Sales

Industrial power sales rose by 5 percent in June to mark the third successive month of increase. These recent increases in the use of electricity by Oklahoma's industries have raised the total for the year to within 1.3 percent of the level of consumption during the same period of 1986. The June gain paralleled that of both manufacturing employment which indicates that manufacturing output is beginning to turn upward and at possibly an accelerated rate. A continuation of the present trend in the use of electricity by industry in the State should shortly raise the level of consumption well above that of 1986.

Personal Income

Personal income received by Oklahoma residents has increased each month since January but these increases have been relatively less than the gains registered during the same period last year and as a result, the monthly average remains 1.3 percent below the average for the first half of 1986. A somewhat more serious picture emerges when personal income data are adjusted for inflation. Rather than an increase, such as occurred in the unadjusted data, after removing the effects of inflation, personal income in June declined by 0.1 percent from the May level which, in turn, contributed to a drop in the average for the first six months of 4.1 percent from the 1986 average. This simply means that not only is personal income lagging behind a year ago but also that the purchasing power of Oklahoma consumers has declined significantly from the year ago level. A portion of this decline in personal income can be attributed to lower property incomes in the form of lease bonus and royalty payments. However, another and possibly more significant factor is the change in the structure of the State's labor force where employment in the higher paying jobs such as those in the mining, manufacturing and construction industries have declined in recent years while employment in jobs in trades, services and government which have lower pay scales have tended to increase thus causing the wage and salary income segment to decline.

General Business Index

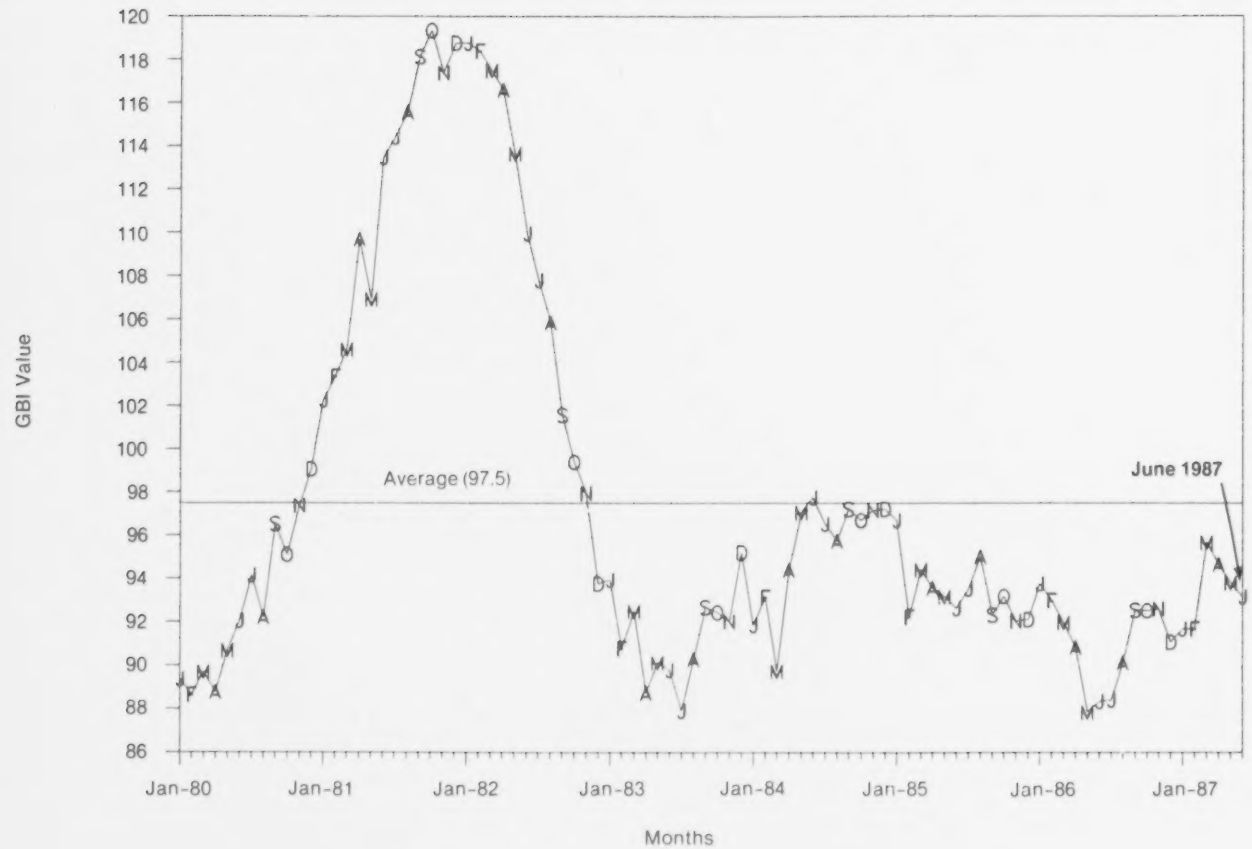
In spite of the fact that most of the economic indicators discussed above experienced increases during June, the decreases which occurred more than offset the gains thereby causing the General Business Index to decline by 0.6 percent during the month to a level of 93.2. Fortunately, however, the increase in business activity during May allowed the average Index for the first half of the year to remain 2.8 percent higher than the average for the first half of 1986. At this rate and barring any sharp decreases, it is entirely possible that by the end of the year the Index will have increased to near the level of 1985.

The Oklahoma General Business Index during the period January 1980 to present is depicted in the Figure on the following page.

Neil J. Dikeman, Jr. is Associate Director for the Center for Economic and Management Research.

FIGURE 1

Oklahoma State General Business Index
January 1980 through June 1987



Recent Trends in Foreign Direct Investment in Oklahoma

Janice Wickstead Jadlow
Donald L. Bumpass

Introduction

The recent fall in oil prices and subsequent depression in the petroleum industry, as well as the decline in agriculture, have adversely affected the economy of Oklahoma. This downturn in economic activity has stimulated interest in Oklahoma economic development and diversification. One manifestation of this interest is the commitment Oklahoma has made to broadening its economic horizons to include the global economy. Evidence of this worldwide viewpoint is exemplified by the Governor's Task Force on International Trade, the state's hiring the London investment bank of Morgan Grenfell to lure capital from Europe, the Governor's trade missions to Japan and India, the establishment of the Center for International Trade Development at Oklahoma State University and the University of Oklahoma's Office of Business and Industrial Cooperation. The thrust has been twofold: to increase Oklahoma exports and to attract industry from the rest of the world.

Headlines have reported the successes in luring foreign capital to Oklahoma. In March 1987 TDK Corporation of Japan announced a joint venture with Allen Bradley Inc. to produce ferrite magnets for electronic products in Shawnee, Oklahoma. In 1985 Hitachi announced its decision to locate a factory in Norman. In addition, Asahi, another Japanese company, recently purchased an iodine plant in Woodward and Iochem also plans an iodine operation in the state. These announcements represent recent important examples of foreign direct investment (FDI) in Oklahoma.

What is FDI?

Foreign direct investment in the United States occurs when a foreigner acquires interest of 10 percent or more in a U.S. based firm or starts a new operation. This enterprise is called a U.S. affiliate of the foreign company. Ownership (or control) of less than 10 percent is defined as indirect or portfolio investment. The distinction between direct and portfolio investment centers on the issue of control. The most obvious example of FDI occurs when a firm sets up a wholly owned subsidiary abroad, but FDI may also involve a joint venture agreement when the foreign-based firm has an ownership share of more than 10 percent. While a foreign firm with extensive portfolio interests may have a greater aggregate investment commitment in the United States than a firm controlling several U.S. affiliates, only the latter represents FDI.

Trends in FDI

FDI in the U.S. has become sufficiently visible to receive much public attention. For example, *Fortune* discussed recently the "selling off of America" to foreign investors who buy U.S. companies, financial instruments and real estate.[1] And the *Wall Street Journal* recently reported that Japanese firms now find it attractive to export goods made in their U.S. affiliates.[2]

FDI in the United States is not a new phenomenon; the early economic development of the United States was fueled by foreign investment, primarily of the portfolio type, in business in this country. During the post-World War II period, U.S. investment abroad grew rapidly. In contrast, foreign capital tended to be relatively insignificant in the postwar U.S. economy. Beginning in 1974, FDI in the U.S. increased significantly; between 1973 and year-end 1980, the stock of FDI in the U.S. had a compound annual growth rate of over 19 percent.[3] During the 1980s, the flow of FDI into the U.S. has been nearly six times the flow of U.S. investment abroad ($100 billion versus $17 billion). Real estate holdings grew at the fastest annual rate, 25 percent.

In 1985, employment by foreign affiliates accounted for nearly 3 percent of U.S. total nonbank employment. Approximately three-fourths of the FDI in the U.S. was

found in four areas: manufacturing (33.2 percent with chemicals accounting for one-third of manufacturing), petroleum (15.4 percent), wholesale trade (15.0 percent), and real estate (10.2 percent). Examination of the sources of FDI in the U.S. reveals that Great Britain has long been the biggest direct investor: in 1985 it owned $44 billion in U.S. assets. The Netherlands ranks second. And Japan now exceeds Canada as the third largest foreign investor with a $19 billion position.

FDI in Oklahoma and the Region

U.S. nonbank affiliates of foreign companies provided nearly 27,000 Oklahoma workers with jobs in 1985. Between 1981 and 1985 Oklahoma experienced an 11.6 percent increase in jobs created by FDI; this represents a 2 percent annual rate of growth.

California, New York, and Texas, respectively, were the three largest states in terms of employment by nonbank U.S. affiliates of foreign companies; each of these states has in excess of 200,000 such employees. And, whereas California had 10 percent, Oklahoma had 1 percent of the total U.S. employment by foreign affiliates.

For the Southwest region, which includes Arizona, New Mexico, Oklahoma, and Texas, the number of foreign affiliate employees totalled over 280,000. For the 1981-1985 period, New Mexico affiliate employment experienced the greatest rate of growth, 9 percent; Texas had 4 percent while Arizona and Oklahoma each had 2 percent. The regional growth rate was 4 percent.

Table 1 shows the extent of FDI for Oklahoma, its six contiguous neighboring states, and for each region of the U.S. Oklahoma's affiliate employment as a percent of its comparable total employment was 2.3 percent in 1985, slightly below the national average of 2.9 percent. For Oklahoma's neighbors this share ranges from 3.1 percent for Texas to 1.5 percent for Kansas. In addition, U.S. affiliates' book value of assets was $4.8 billion in Oklahoma alone, and over $54 billion for the seven-state region centered on Oklahoma. Affiliates of foreign firms owned 31 thousand acres of Oklahoma land.

Most of the FDI in Oklahoma was generated from Canada; Canadian affiliates account for 33 percent of Oklahoma's foreign affiliate employment, double that of the second ranking United Kingdom. Canada, the UK, the Netherlands, and West Germany accounted for three-fourths of the total Oklahoma employment by nonbank U.S. affiliates in 1985 (see Table 2).

Although Oklahoma and the Southwest region mirror the national pattern, Table 3 focuses on the differences. The numbers reflect the attractiveness of Oklahoma to foreign investors of different nationalities relative to the Southwest region and to the nation, respectively. A number greater than 1.0 implies that Oklahoma has an

TABLE 1

Employment and Property, Plant, and Equipment of Nonbank U.S. Affiliates by Region and Selected States

	Number of Employees		Affiliate Employment[a] (Percentage)	Average Annual Rate of Growth (Percentage)	1985	
	Year-End 1981	Year-End 1985	1985	1982-1985	Gross Book Value of Property Plant & Equipment (Millions of $)	Land Owned (Thousand Acres)
Total	2,416,565	2,853,590	2.9	4	$293,560	14,584
Southwest	242,518	283,688	2.9	4	48,294	1,842
Arizona	30,642	33,603	2.5	2	3,700	213
New Mexico[b]	7,857	10,959	2.1	9	1,876	613
Oklahoma	24,978	26,967	2.3	2	4,835	31
Texas[b]	179,041	212,159	3.1	4	37,883	985
Plains	112,329	126,064	1.7	3	12,098	768
Kansas[b]	14,632	14,443	1.5	L	1,199	65
Missouri[b]	32,618	45,630	2.1	9	3,027	94
Southeast	577,742	706,497	3.2	5	69,880	3,929
Arkansas[b]	17,506	18,283	2.2	1	1,069	93
Rocky Mountains	52,583	50,338	1.7	-1	11,873	988
Colorado[b]	24,743	31,068	2.2	6	4,561	383
New England	144,024	169,820	2.7	4	7,778	2,768
Mideast	564,531	632,789	3.3	3	40,206	995
Great Lakes	388,570	481,908	2.8	6	29,923	863
Far West	294,380	360,707	2.5	5	41,202	2,349

Source: Survey of Current Business, May 1987. Monthly Labor Review, March 1987.

[a]Affiliate employment as a percent of total employment.

[b]States contiguous to Oklahoma.

L = Less than +0.5 percent.

TABLE 2

Employment of Nonbank U.S. Affiliates, State by Country[a]
Thousands of Employees
1985
(Percent of Total in Parentheses)

	Canada	UK	Netherlands	West Germany	France	Japan	Latin America	Total of All Countries
Southwest Region:								
Oklahoma	9.0 (33%)	4.7 (17%)	3.4 (12%)	3.2 (12%)	1.4 (5%)	0.5 (2%)	1.7 (4%)	27.0 (100%)
Texas	36.7	39.5	28.4	31.9	13.6	7.6	12.7	212.2
New Mexico	0.7	2.8	1.8	3.5	0.3	0.1	0.4	10.9
Arizona	8.5	9.1	3.8	3.5	0.9	0.7	1.7	33.6
Regional Total	55.0 (19%)	56.1 (20%)	37.4 (13%)	42.0 (15%)	16.1 (6%)	8.9 (3%)	15.9 (6%)	283.7 (100%)
Other Contiguous States:								
Arkansas	3.8	3.5	3.8	0.9	1.5	3.0	0.4	18.2
Colorado	7.6	8.8	0.8	3.5	2.6	0.9	0.9	31.1
Kansas	2.6	2.7	1.8	2.4	1.9	0.2	0.2	14.4
Missouri	12.7	9.2	4.9	7.6	0.9	1.5	1.5	45.6
U.S. Total	527.6 (18%)	628.4 (22%)	213.4 (7%)	406.7 (14%)	163.8 (6%)	208.6 (7%)	122.6 (4%)	2,853.6 (100%)

Source: Survey of Current Business, May 1987.

[a]Country of ultimate beneficial owner.

TABLE 3

The Southwest's Relative Attractiveness to Foreign Investments from Selected Countries
1985

Country	Ratio Oklahoma to Region[a]	Ratio Oklahoma to U.S.[a]
Canada	1.74	1.83
United Kingdom	0.85	0.77
Netherlands	0.92	1.71
West Germany	0.80	0.86
France	0.83	0.83
Japan	0.67	0.29
Latin America	0.67	1.00

Source: Table 2.

[a]Each country's share of total foreign direct investment in Oklahoma divided by the country's share of FDI in the region and in the U.S., respectively.

above-average attractiveness to FDI from a specific country. The regional comparison for 1985 indicates that, relative to the Southwest, Oklahoma was more attractive only to FDI from Canada; for the other countries in the study, Oklahoma had attracted a smaller share than the regional average. Looking at the comparison of Oklahoma and the United States, Oklahoma had an above-the-national-average attraction to FDI from Canada and the Netherlands. In both comparisons, it was the least attractive to Japanese investment.

Table 4 shows a similar analysis for the Southwest region's attractiveness for (or dependence on) investments in specific industries. Relative to the U.S., the Southwest is shown to have been highly dependent upon foreign investment in Petroleum and Coal Products over the 1980-1982 period. The Stone, Clay, and Glass Products industry also had an above-average attractiveness but the ratio is less than half that of Petroleum. In addition, the Southwest region was relatively attractive to foreign investment in Chemicals and Allied Products. By contrast, foreign investors avoided Rubber and Plastics Products, Transportation Equipment, and Instruments and related products.

The Attraction of FDI

In the future FDI in the United States should remain attractive. Indeed, the huge U.S. trade deficit has provided the rest of the world with dollars which can be used to buy U.S. assets. The recent drop in the value of the dollar has enhanced the attraction of the United States by making U.S. assets bargain specials. However, neither a reduction in the trade deficit nor a rise in the dollar will stem the flow of capital into the U.S. Interest from abroad for FDI in the United States is high. A survey of nearly 200 European chief executives found that 45 percent named the

TABLE 4

The Southwest's Dependence on (Attractiveness to) Foreign Investment in Selected Industries 1980-1982

Industry	Southwest Region[a]
Food and Kindred Products	.77
Chemicals and Allied Products	1.45
Petroleum and Coal Products	5.90
Rubber and Plastic Products	0
Stone, Clay and Glass Products	2.68
Primary Metal Industries	.53
Fabricated Metal Products	.90
Machinery, except Electrical	.51
Electric and Electronic Equipment	1.01
Transportation Equipment	0
Instruments and Related Products	0

Source: Jane Sneddon Little, "Foreign Investors' Locational Choice," *New England Economic Review*, Volume 30 (January/February 1983).

[a]Each region's share of foreign investment in selected industries divided by the region's share of all foreign investments.

United States as their first choice for international expansion.[4]

The interest in FDI in the United States reflects several factors. As mentioned above, the large U.S. trade deficit and the depreciation of the dollar are contributing factors. Strategic reasons also play a large role. The main reason listed by the executives surveyed is "access to a large, homogeneous market." Other attractions of the U.S. include political stability in an unpredictable world, access to new technologies, and the relatively high growth rate of the U.S. accompanied by sufficient growth in other developed countries to finance FDI in the U.S. Recent developments in the U.S. political economy also enhance U.S. magnetism. Tax reform resulted in the U.S. having the lowest maximum corporate tax rate in the industrial world. And the protectionist fervor in Congress has cast FDI as a means to avoid potential costly U.S. trade barriers.

In addition, FDI in the Southwest appears to be attractive. Recently the *Wall Street Journal* reported that a Bureau of Economic Analysis study of data for the decade 1974-1983 indicated "a shift underway in the regional pattern of U.S. foreign investment."[5] The Southeast and Southwest were the major growth areas over the decade for FDI as measured by employment.

Conclusion

Foreign direct investment remains a small part of the total volume of economic activity in the United States and is even less important in Oklahoma. Attractive features of the U.S. economy suggest that FDI in the U.S. will continue to thrive. The benefits of foreign investment to our economy are also important in jobs, tax revenues, and advanced technologies. In the final analysis, FDI represents a "two-way street" where both the foreign investor and the host economy gain.

Notes

[1]Jaclyn Fierman, "The Selling Off of America," *Fortune* (December 22, 1986), pp. 44-56.

[2]Douglas R. Sease, "Japanese Firms Export U.S.-Made Goods," *Wall Street Journal* (March 3, 1987), p. 6.

[3]David McClain, "Foreign Direct Investment in the United States: Old Currents, 'New Waves,' and the Theory of Direct Investment," in *The Multinational Corporation in the 1980s* edited by Charles P. Kindleberger and David B. Audretsch (Cambridge, Massachusetts: The MIT Press, 1984).

[4]George Anders, "European Executives Consider U.S.," *Wall Street Journal* (December 5, 1984), p. 34.

[5]"Southern States Increase Share of Foreign Direct Investment," *Wall Street Journal* (October 7, 1986), p. 35.

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Oklahoma's Passive Tax Expenditures 1981 and 1984

William M. Hildred
James V. Pinto

Introduction

This article examines the issue of passive tax expenditures affecting several individual states and the nation. Discussion of their impact on Oklahoma first appeared in *The Oklahoma Observer* in 1980.[1] The general topic of passive tax expenditures was introduced with an application to Colorado in *Tax Notes* in 1977.[2] Three articles have analyzed the impact on Arizona.[3] The work was expanded to the entire nation in a 1986 article appearing in the *Journal of Economic Issues*.[4]

With the recent federal tax reform being such an important and timely topic, it is worthwhile once again to examine the degree to which Oklahoma's tax collections depend upon actions taken by Congress and the President with respect to the federal income tax. Although no attempt is made in this article to estimate the tax revenue windfall in Oklahoma due to the 1986 Tax Reform Act,[5] by looking at the estimated negative impact of passive tax expenditures in 1981 and 1984 on Oklahoma's personal income tax collections, one can realize the potential effect on state increases in tax collections due to provisions in the federal tax legislation. This article examines the magnitude of Oklahoma tax revenue losses attributable to federal tax loopholes or "tax expenditures" in 1981 and 1984. These revenue losses, incurred by a state due to linking its tax system to the federal system, are called "passive tax expenditures."

Statement of the Problem

The Tax Expenditure Concept

A tax expenditure is an instrument of public policy that benefits a distinct group of taxpayers by forgiving tax payments from that group. As formally defined by the Congress, tax expenditures are:

> ...revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax or a deferral of tax liability.[6]

The purposes of tax expenditures are two-fold: the provision of a subsidy which induces people to conform their private decision making to some public purpose, or the provision of relief from certain kinds of economic hardship. Of course, an alternative method of benefitting such groups would be through direct appropriations and expenditures (thus the name "tax expenditures").

The Phenomenon of Passive Tax Expenditures

Many state legislatures (including Oklahoma's) routinely accept federal definitions of taxable income, deductions and exclusions, or routinely permit the taxpayer's calculated federal income to be used for the state income tax return. Oklahoma's tax structure replicates the federal structure, including all the federal tax expenditures. This replication of the federal structure creates *passive* tax expenditures.

A legislature is indeed passive in this regard if it maintains a tax structure that embodies all the federal features as Congress enacts them, without giving active consideration to the existence, costs, or justification of the incentives in that structure which may or may not be in the state's interest. In today's environment not many legislators and tax agency officials can remain unaware of the phenomenon of passive tax expenditures, but they may assume the magnitude of such revenue losses to be insignificant. They might also believe that requiring a different tax procedure at the state level than at the federal level would lead to great complications for their tax

payers and for state administrative processes. In any case, state tax officials concerned about the integrity of their tax systems should recognize the implications of continuing the present situation. Passive tax expenditures entail loss of control by state tax authorities over their own income tax bases, and the state contributes its foregone revenues in support of goals chosen by federal authorities.

Data and Method

A model has been developed for estimating the magitude of passive tax expenditures in all forty states that have a state income tax. The data for developing the estimates consist of: (1) the annual Tax Expenditure Budget, presented in Special Analysis G of the president's budget documents; (2) the ratio of each state's share of federal personal income tax paid, relative to the total federal personal income tax paid; (3) distributive data, apportioning each tax expenditure across income classes; and, (4) marginal tax rates for each income class, for each state.

The estimates are obtained through a sequential process in which each federal tax expenditure is apportioned among the states in the same ratio as the states' respective shares of tax paid, then distributed as the national distribution across income classes. Next, the income class data are grossed up by dividing through by federal marginal tax rates, yielding the increase in taxable income that would occur if the tax expenditure did not exist. Finally, each state's marginal tax rates are applied to the income-class-specific grossed-up income to provide the estimate of increase in state income tax revenue that would follow repeal of the tax expenditure. Greater detail and examples of the method can be found in our earlier papers.[7]

Results

The latest estimates presented in this article are for 1984. The following Table gives those for Oklahoma along with a prior estimate for 1981.

In comparing these two data sets, one needs to first look at overall changes between 1981 and 1984. Total passive tax expenditures increased by 52 percent as indicated by the 1984/1981 ratio (r) of 1.52. This percentage change represents an increase from $696.6 million to $1.056 billion. These figures may seem to be large, but they are in line with estimates made for other states and the nation.[8] Remember, these would be the increases in Oklahoma's personal income tax collections if *none* of the federal tax expenditures had existed in those years *and* if Oklahoma would have taxed its resulting larger taxable income base without allowing for *any* of those deductions, exemptions, or exclusions. It is highly unlikely that either of these events would ever occur, but the analysis indicates the potential for increased tax collections if they did occur.

TABLE 1

Oklahoma Passive Tax Expenditures
1981 and 1984
(thousands of dollars)

Passive Tax Expenditure	1981	1984	Ratio 1984/1981
Exclusion of Armed Forces benefits	6,172	7,915	1.28
Exclusion of income earned abroad	2,585	5,850	2.26
Expensing of R&D expenditures	159	621	3.91
Expensing of exploration and development expenditures	3,389	4,082	1.20
Excess of percentage over cost depletion	6,354	3,794	.60
Capital gains treatment of coal royalties	316	396	1.25
Exclusion of interest on state and local IDBs for energy facilities	—	306	—
Exclusion of interest on state and local IDBs, pollution control	903	2,188	2.42
Capital gains treatment of iron ore	39	66	1.69
Capital gains treatment, timber income	533	352	.66
Expensing of capital outlays, farmers	1,983	2,627	1.32
Capital gains, farm income	1,599	2,419	1.51
Dividend exclusion	5,470	2,279	.42
Exclusion of interest, small issue IDBs	907	4,311	4.75
Exclusion of interest, life insurance savings	16,434	14,318	.87
Deductibility of interest on consumer credit	22,099	60,196	2.72
Deductibility of mortgage interest	83,608	106,929	1.28
Deductibility of property taxes	37,148	40,931	1.10
Exclusion of interest, state and local housing bonds, owners	1,455	1,204	.83
Exclusion of interest, state and local housing bonds, rentals	923	1,291	1.40

TABLE 1 (continued)

Oklahoma Passive Tax Expenditures
1981 and 1984
(thousands of dollars)

Passive Tax Expenditure	1981	1984	Ratio 1984/1981
Exclusion of capital gains other than coal, iron, timber, agriculture	64,101	77,482	1.21
Deferral of capital gains, home sales	4,671	7,992	1.71
Exclusion of capital gain on home sales, persons age 55 and over	2,504	3,571	1.43
Carryover basis of capital gains at death	20,079	16,979	.85
Accelerated depreciation on rental housing	2,976	2,325	.78
Accelerated depreciation on buildings other than rental housing	493	8,628	17.50
Accelerated depreciation of machinery and equipment		5,616	—
Amortization of start-up costs	79	702	8.89
Exclusion of interest, state and local bonds for mass commuting vehicles	—	131	—
Five-year amortization for housing rehabilitation	60	155	2.58
Exclusion of interest on IDBs for airports, docks, sports and convention facilities	—	744	—
Exclusion of scholarship and fellowship income	1,314	2,161	1.64
Exclusion of interest, state and local student loan bonds	98	284	2.90
Exclusion of interest, state and local debt for private nonprofit educational facilities	—	131	—
Parental personal exemption for students age 19 and over	4,229	4,777	1.13
Deductibility of charitable contributions, education	3,866	3,174	.82
Exclusion of employee meals and lodging	1,589	3,378	2.13
Deductibility of charitable contributions, other than education and health	29,034	43,438	1.50
Exclusion of employer contributions for medical insurance premiums and medical care	60,937	91,787	1.51
Deductibility of medical expenses	15,300	15,068	.98
Exclusion of interest, state and local debt for private nonprofit health facilities	727	1,094	1.50
Deductibility of charitable contributions, health	5,802	6,347	1.09
Exclusion of OASI disability benefits	2,777	4,728	1.70
Exclusion of OASI retirement benefits	30,740	52,467	1.71
Exclusion of OASI dependents and survivors benefits	4,261	14,261	3.35
Exclusion, railroad retirement system benefits	1,296	2,336	1.80
Exclusion, workmen's compensation benefits	10,145	9,144	.90
Exclusion of public assistance	1,146	1,414	1.23
Exclusion of disabled coal miner benefits	301	520	1.73
Exclusion of unemployment insurance benefits	16,869	7,292	.43
Exclusion, military disability pensions	661	520	.79
Exclusion of pension contributions and earnings, employer plans	100,403	208,738	2.08
Exclusion of IRAs	—	52,078	—
Exclusion of Keogh pension plans	8,952	6,682	.75
Exclusion of premiums on group life insurance	7,921	9,089	1.15
Exclusion of premiums on accident and disability insurance	427	595	1.39
Additional exemption for elderly	8,753	10,873	1.24
Deductibility of casualty losses	2,941	1,694	.58
Exclusion, veterans disability compensation	5,059	7,112	1.41
Exclusion, veterans pensions	331	846	2.56
Exclusion, GI Bill benefits	700	585	.84
Exclusion of interest, state and local debt for veterans housing	—	175	—
Exclusion of interest, state and local public purpose debt	7,407	8,294	1.12
Deductibility of state and local taxes	75,641	95,651	1.26
Deferral of interest on savings bonds	—	3,222	—
TOTAL	696,661	1,056,359	1.52

Next, one can identify those passive tax expenditures which decreased from 1981 to 1984 by noting those 1984/1981 ratios which are less than one. In these cases, the ratios takes on values $0 < r < 1$. Of the 65 passive tax expenditures listed in Table 1, twenty percent of the items showed a decrease during this period. The reduction of the excess of percentage over cost depletion reflects the downturn in Oklahoma's oil production. Deductibility of casualty losses declined due to a change at the federal level that reduced the amount of such losses that could be deducted. Capital gains on certain timber income fell due to a recession in the housing and lumber industries. Unemployment compensation not taxed by Oklahoma produced less revenue loss in 1984 than in 1981, because of federal cuts in the amount of such benefits and taxation of the benefits above formula-determined amounts.

All other passive tax expenditures increased. Some grew modestly. Eighteen of the items showed growth of less than 50 percent over this period. Ratios of $1 < r < 1.50$ reflect these moderate rates with many growing slower than the increase in GNP over the same period. Most of the other items approximately doubled, and five of them more than tripled. Most of the near-doubling increases are probably associated with nominal economic growth during the same period. At the extreme, the absolute magnitude of increases may be noteworthy. For example, the relatively high $r = 3.91$ for expensing of R&D expenditures reflects an increase from a relatively low base of $159,000 in 1981 to $621,000 in 1984, whereas the relatively low $r = 1.28$ for the deductibility of mortgage interest reflects an increase from the relatively high value of $83,608,000 in 1981 to $106,929,000 in 1984. The mere observation of a large or small r, therefore, need not indicate by itself an unusually significant change.

Conclusions

Many explanations could be developed about the causes of change in these passive tax expenditures. Regardless of the added understanding obtained from such explanations, the most essential insight is that passive tax expenditures are *passive*. That is, the income tax base of Oklahoma shrinks or increases as a result of decisions made by the federal government. The Oklahoma legislature did not decide, for example, to forego $43 million in tax collections in 1984 (in addition to the amount foregone by the federal government) to encourage charitable giving by allowing the deduction for charitable contributions, nor to stimulate commerce by allowing deduction of consumer interest of $60 million, above and beyond the stimulus provided by the federal deduction.

Much the same could be said of nearly every item in the Table. The federal government was at some time persuaded that the market was somehow inadequate, or that some groups of income recipients were suffering hardship. A law or regulation was enacted, and from that time on the individuals received government largess in the form of a lower federal taxable income and thus a lower tax liability. As an added result, the states with income tax systems linked to the federal system collected less through their tax systems. Oklahoma allowed federal tax expenditures to have an impact on their state personal income tax collections in 1981 and 1984 to the extent indicated in Table 1 under the assumptions of what Oklahoma's tax collections would have been if none of the federal tax expenditures existed during those years and that Oklahoma itself would not allow for any tax breaks. Oklahomans may or may not "need" the windfall tax relief engendered through passive tax expenditures, but no one knows since the issue remains unexamined by the legislature.

Wisdom would seem to require a thorough review of each passive tax expenditure, resulting in conclusions about the desirability of continuing to allow the federal government to decide how much revenue the Oklahoma income tax will generate. Such action is recommended especially in this time of budget stringency in Oklahoma. In 1987, as the governor and legislature sought ways to deal with a $350 million budget deficit, the most popular approach was to cut spending. Only with great difficulty were the increases proposed and passed. It is interesting that at no time in the difficult process of making these adjustments was a proposal put forth to generate additional revenue by altering the income tax. The revenue enhancement occured wholly in the realms of sales and excise taxes and user fees. The issues raised in this article were not addressed.

Much of the difficulty faced by legislators who sought to raise taxes is that many Oklahomans see government as a parasite. It is viewed as doing nothing well and provides few desirable services. These services are said to carry an exorbitant cost because of mismanagement and corruption. Consequently, it is argued that the only sensible reaction is to make government as "small" as possible, and the only way to determine that government is shrinking is to observe that it is spending less. However, an adequate assessment of the role of government, one which is coherent and comprehensive, must acknowledge the fact that not all subsidies and income supports attributable to the state treasury are visible as appropriations. Tax expenditures, including the passive kind discussed in this article, are every bit as important to their recipients as are the cash flows of appropriations.

Obviously, some Oklahoma officials have an understanding of this fact. They believe that decision makers in business will respond to the state's inducement to locate or expand job-creating facilities within its borders, even if the financial lure is a reduction of tax liability instead of a cash grant. Evidence that this belief is influential in the capitol building is clear: on May 14, 1987, the House of Representatives approved an income tax exemption for small business "incubators"; on April 27, 1987, the Senate sought to encourage out-of-state insurance companies to establish regional offices in Oklahoma, exempting such benefactors from the insurance premium tax; and on April 13, a Senate committee offered a reduction of fees to those who register securities in Oklahoma, in the hope of fostering capital formation.[9] These kinds of actions are assuredly not part of a *laissez faire* governmental stance. They are significant interventions in the business decision making process, and they impose nontrivial costs on the taxpayers of the state.

If Oklahomans truly wish to reduce the role and influence of state government, the appropriate budget policy would dictate cuts *both* in appropriations and passive tax expenditures, with those cuts allocated in proportion to the respective sizes of appropriations and passive tax expenditures. Thus, assuming that Oklahoma's 1987 passive tax expenditures are on the order of $1 billion, and that appropriations are on the order of $2 billion, a $300 million deficit reduction should be divided between passive tax expenditures and appropriations in a 1:2 ratio. These reductions would result in passive tax expenditures being cut by $100 billion and appropriations being cut by $200. The salutary result this exercise would be that all of the beneficiaries of the state government's financial support would be visible, and forced to defend the legitimacy of their requests for that support. Thus, benefits lost by reducing "visible" appropriations (e.g. reduction in the number of teachers which the state can employ) could then be compared to the benefits lost from the reduction of an "invisible" passive tax expenditure (e.g. the deductibility of mortgage interest). Presently, the systems operates to force those who receive "visible" benefits (appropriations) to fight among themselves to keep from losing those benefits when appropriations are cut, while recipients of passive tax expenditures continue to receive their payments without any demonstration of individual need or demonstration of public benefit deriving from the payment.

Notes

[1]W. Hildred, "How Oklahoma Loses Millions Each Year," *The Oklahoma Observer* (September 25, 1980).

[2]W. Hildred, "Passive Tax Expenditures in State Income Taxes," *Tax Notes*, Vol. 5, No. 20 (May 1977), pp. 5-7.

[3]J.V. Pinto and W. Hildred, "Passive Tax Expenditures' Impact on Arizona Personal Income Tax Revenues 1979 and 1980," *Western Tax Review*, Vol. 4, No. 1 (Spring 1983), pp. 156-167. W. Hildred and J.V. Pinto, "Impact of Federal Tax Reform on Arizona's State Revenues," *Arizona Business and Economic Review*, Vol. 12, No. 1 (September 1985), pp. 6-8. W. Hildred and J.V. Pinto, "Arizona's Passive Tax Expenditures, 1984," *Arizona Business and Economic Review*, Vol. 13, No. 2 (December 1986), pp. 3-6.

[4]W. Hildred and J.V. Pinto, "Passive Tax Expenditures: Estimates of States' Losses Attributable to Federal Tax Expenditures," *Journal of Economic Issues*, Vol. XX, No. 4 (December 1986), pp. 941-952.

[5]A preliminary report of the Advisory Commission on Intergovernmental Relations, "Preliminary Estimates of the Effect of the 1986 Federal Tax Reform Act on State Personal Income Tax Liabilities," December 1986 makes estimates of the impact of this act on individual states under various assumptions.

[6]*Special Analysis G, Budget of the United States Government, Fiscal Year 1979* (Washington, D.C.: Government Print Office, 1979), p. 148.

[7]See Hildred and Pinto in the *Journal of Economic Issues*, op. cit.

[8]Ibid. Total passive expenditures for the nation were calculated to be $26.8 billion in 1984. Oklahoma's passive tax expenditures ranked the 10th highest among 40 states with state income taxes in 1984.

[9]Reported in *The Daily Oklahoman* May 15, 1987, pp. 13, 18; April 28, 1987, p. 13; and, April 14, 1987, p. 13.

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